

Idaho Real Estate Salesperson Prelicensing Course Module 2

*Student Course Outline
for the 45-hour course*

Effective November 1, 2003

Developed by the
Idaho Real Estate Commission and the
Idaho Real Estate Education Council

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ATTENDANCE POLICY

Regular attendance means 100% attendance at all sessions of a prelicense or continuing education (CE) course.

Make-Up Work for Prelicense Courses: If a student misses a portion of a class, makeup work is allowed *only at the discretion of the instructor* to satisfy the attendance requirement. A student may complete makeup work if he or she misses no more than 20% of the scheduled in-class instruction time. A student who misses more than 20% of the course should be dropped from the class. **All makeup work must be completed within 30 days of the last day of the course, and the student is not eligible to take the final course exam until all makeup is completed.** Makeup work may consist of attendance in the corresponding class sessions in a subsequent offering of the same course, the supervised presentation by audio or video recording of the class sessions missed, or any other assignment deemed appropriate by the instructor.

Make-Up Work for CE Courses: Makeup work is not allowed, except for attendance in the corresponding class session in a subsequent offering of the same course, and *only at the discretion of the instructor*. Consequently, CE providers are compelled to impose stringent attendance standards, and may not award CE credit to a student who missed any portion (even a matter of minutes) of a CE class, unless the student successfully completes the required hours in a subsequent course offering, or completes the challenge CE exam if available. CE providers are charged with the responsibility of enforcing the attendance standard, and have developed various procedures for handling this issue. The Commission obligates providers to take a strict approach.

REQUIRED NOTICE: Providers and instructors of prelicense and continuing education courses approved in Idaho are required to include this “Attendance Policy” in each approved student course outline for all prelicense and continuing education courses.

See 54-2004(38), 54-2023(5), 54-2036(2)(g), Idaho Code.

Revised 10/03

PREFACE






COURSE OBJECTIVES

This course is for the beginner in real estate who has little, if any, previous knowledge in the field. It is designed as a minimum level competency to practice in the field of real estate. *It is not tailored as an exam preparatory course.* Idaho requires 90 hours of approved prelicense education for a salesperson's license. Successful completion of both modules of this curriculum will satisfy the educational requirements for a salesperson's license.

This material is by no means complete and should not be used as a substitute for competent legal or other professional advice. Personal opinions expressed by the instructors in this course are not necessarily the opinions of the Idaho Real Estate Commission or Education Council. Because the Idaho Real Estate Commission does not design, revise, sell, or approve forms for real estate transactions, any actual forms used herein are as samples only, and used with permission of copyright owners. They are not intended to be an endorsement of any particular form. If the instructor wishes, he/she may provide information concerning the examples used in the case study on the forms generally in use in his/her area of the state.

REFERENCES

The following are approved references used in the course.

-  *Mastering Real Estate Principles. (2001, 3rd ed.). Cortesi, Gerald R. Dearborn Financial Publishing, Inc.; **OR***
-  *Modern Real Estate Practice. (2003, 16th ed.). Galaty, Allaway, Kyle. Dearborn Financial Publishing, Inc.*
-  *Realty Bluebook – Financial Tables (2003, 33rd ed.). Dearborn Financial Publishing, Inc.*
-  *Idaho Real Estate: Practice and Law (2002). Dearborn Financial Publishing, Inc.*
-  *Idaho Real Estate License Law and Rules (July 2003). Idaho Real Estate Commission.*

SALESPERSON PRELICENSE - MODULE 2

I. REAL ESTATE CONTRACTS



Mastering (Chapter 14, 15)



Modern (Chapter 11)



Idaho Real Estate: Practice & Law (Chapter 7, 12)

- ✓ *LEARNING OBJECTIVES: After completing this chapter students should be able to*

A. Definition of a Contract

- ✓ *Understand and define the concept of contract.*

B. Legal Classifications of Contracts

- ✓ *Understand and explain the difference between the different legal classifications of contracts.*

1. Express vs. Implied
2. Unilateral vs. Bilateral
3. Executed vs. Executory

C. Legal Status of Contracts

- ✓ *Understand and explain the difference between valid, void, voidable and unenforceable contracts.*

1. Void
2. Valid
3. Voidable
4. Unenforceable

D. Essential Elements of a Valid Contract

- ✓ *List and explain five required elements of a contract.*
- ✓ *Explain when a contract is made under duress, fraud or trickery.*
- ✓ *Explain what is considered legally sufficient consideration.*
- ✓ *List the types of contracts that must be in writing.*
- ✓ *List and explain the various ways a contract can be discharged.*
- ✓ *Define the phrase time is of the essence as it pertains to performance of a contract.*
- ✓ *Discuss the concept of a statute of limitations and cite examples.*

1. Legal Capacity
2. Mutual Consent, Meeting of the Minds
3. Legal Purpose

4. Consideration
 - a) Valuable Consideration
 - b) Good Consideration
5. Offer and Acceptance
 - a) Offer
 - b) Acceptance
 - c) Counter Offer
 - d) Amendment
 - e) Addendum
6. Rejection
7. Terminating a Contract
 - a) Full Performance
 - b) Agreement Between the Parties
 - (1) Cancellation
 - (2) Rescission
 - (3) Assignment
 - (4) Novation
 - (5) Accord and Satisfaction
 - c) Breach of Contract
 - (1) Rescission
 - (2) Liquidated Damages
 - (3) Damages
 - (4) Specific Performance
 - d) Partial Performance
 - e) Substantial Performance
 - f) Impossibility of Performance
 - g) Operation of Law
8. Statute of Limitations
 - a) Time is of the Essence
 - b) Written Contract 5 years; Verbal Contract 4 years
9. Contracts Used in the Real Estate Business
 - a) Seller Representation Agreement
 - (1) Types of Listing Agreements (open, net, exclusive, etc.)
 - b) Buyer Representation Agreement
 - c) Options
 - d) Land Sale Contracts or Contracts for Deed

- e) Leases
 - f) Escrow Agreements
 - g) Purchase and Sales Agreement (RE21)
 - h) Purchase and Sales Agreement New Construction (RE22)
10. Idaho Requirements for a Valid Real Estate Contract
- a) Legally competent parties
 - b) Offer and acceptance or mutual assent that include meeting of the minds
 - c) Legal objective
 - d) Legal consideration
 - e) An enforceable legal description
 - f) Written document, signed by all parties to the contract
11. Statute of Frauds in Idaho—Defined by Idaho Supreme Court: “Agreements for the sale of real property or of an interest therein and leases of real property for a period of more than one year are unenforceable unless the sale or lease agreement, or some note or memorandum thereof, is in writing and signed by both parties.”
12. Interpleader Action

E. Recording of Title Information -- Title Records

- ✓ *Explain why title recording is important*
- ✓ *Define the Uniform Commercial Code provisions for a security agreement and a financing statement*
- ✓ *Define chain of title, a title search, abstract of title, and marketable title.*
- ✓ *Describe the different kinds of title insurance policies and differentiate between owner's policies and mortgagee policies.*


- 1. Torrens System of Title Registration
- 2. Public Records
- 3. Recording Documents
 - a) Signed and Notarized
 - b) Acknowledged
- 4. Priority
- 5. Grantor, Grantee Index System
- 6. Unrecorded Documents, “Off Record” Liens
- 7. Chain of Title
 - a) Title Search
 - b) Abstract of Title
 - c) Certificate of Title

- 8. Marketable Title
- 9. Title Insurance
 - a) Title Plant Records
 - (1) Tract system of records
 - (2) Patent title plant
 - b) Title commitment
 - c) Title Policies (American Land Title Association)
 - (1) Standard Coverage Owner's Policy
 - (2) Extended Coverage Lender's Policy (Mortgagee Policy)
 - (3) Extended Coverage Owner's Policy
 - (4) Endorsements
- 10. Uniform Commercial Code

TITLE PLANT TOUR (2 HOURS)

II. WORKING WITH A BUYER AS A CLIENT OR CUSTOMER

 *Mastering (Chapter 13, 20, 21, 22, 23)*

 *Modern (Chapter 13)*

 *Idaho Real Estate: Practice & Law (Chapter 1, 2, 11)*

✓ *LEARNING OBJECTIVES: After completing this chapter students should be able to*

A. Buyer Motivation

✓ *List and role-play the various techniques that can be used in the initial interview process with prospective buyers.*

B. Agency Representation, Client/Customer

✓ *Describe the various duties, responsibilities, and decision-making processes required in agency relationships with the buyer.*

1. Buyer Representation Disclosure (Blue Brochure)
2. Buyer Representation Agreement Requirements - Form, Line-by-Line Analysis

C. Real Estate Finance, Buyer's Ability to Purchase

- ✓ *Describe the various requirements of possible avenues of financing for prospective buyers.*
- ✓ *Describe the characteristics of the various ways that real estate can be financed in assisting prospective buyers to make purchase decisions.*
- ✓ *List the various sources of money for real estate financing in the primary mortgage market available to buyers.*
- ✓ *Be able to discuss with prospective buyers the immediate effects the secondary mortgage market has on the primary mortgage market and the availability of money.*

1. Lending Concepts
 - a) Lien Theory States (Mortgage Law)
 - (1) Mortgagor
 - (2) Mortgagee
 - b) Title Theory States, Deed of Trust
 - (a) *Trustor*
 - (b) *Beneficiary*
 - (c) *Trustee*
 - c) Intermediary Theory States
2. Provisions of Note, Promise to Pay
 - a) Note, Negotiable Instrument
 - b) Interest Rate & Usury Laws
 - c) Loan Origination Fees
 - d) Discount Points
 - e) Prepayment Penalty (Privilege)
 - f) Hypothecation

3. Elements of Mortgage or Deed of Trust
 - a) Names of Mortgagor or Trustor
 - b) Legal Description
 - c) Provision for Default and Remedy
 - d) Waste Clause
 - e) Release
 - f) Tax and Insurance Reserves
 - g) Defeasance Clause
 - h) After Acquired Clause
 - (1) Acceleration clause, due on sale, alienation
 - (2) Pre-payment
 - (3) Assignment of rents
 - (4) Subject to or assumption of
 - i) Recording of Documents
 - j) Priority of Mortgages or Deeds of Trust
 - k) Foreclosure
 - (1) Judicial foreclosure
 - (2) Nonjudicial foreclosure
 - (3) Foreclosure deed of trust in Idaho
 - (4) Deed in lieu of foreclosure
 - (5) Redemption
 - (6) Deed to purchaser at sale
 - (7) Deficiency judgment
 - l) Land Sale Contracts or Contracts for Deed
4. Federal Reserve System
 - a) Reserve Requirements
 - b) Discount Rates
5. Real Estate Mortgage Market
6. Primary Mortgage Market
 - a) Money Available Directly to Borrowers
 - b) Major Lenders
7. Secondary Mortgage Market
 - a) Existing Loans are Bought and Sold
 - b) Fannie Mae (Federal National Mortgage Association)
 - c) Ginnie Mae (Government National Mortgage Corporation)
 - d) Farm Service Agency (Formerly Farmers Home Administration)
 - e) Private Conduits

8. Types of Mortgages, Deed of Trust
 - a) Conventional Mortgage B Deed of Trust
 - b) FHA Insured Mortgage B Deed of Trust
 - c) VA Guaranteed Mortgage B Deed of Trust
9. Types of Loans by Characteristics
 - a) Purchase Money Mortgage B Deed of Trust
 - b) Package Mortgage
 - c) Open Mortgage
 - d) Open-End Mortgage
 - e) Blanket Mortgage
 - f) Wrap-Around Mortgage
 - g) Shared-Appreciation Mortgage
 - h) Construction Mortgage
 - i) Sale and Leaseback with Buy-Back
 - j) Home Equity Loans
 - k) Buy Downs
10. Types of Loans by Payment Plan
 - a) Straight Loans (Term Loans)
 - b) Amortized Loans
 - (1) Fully Amortized
 - (a) *Straight principal reduction*
 - (b) *Constant payment*
 - (c) *Budget payment*
 - (2) Partially Amortized, Balloon Payment
 - c) Flexible Payment Mortgage
 - d) Graduated Payment Mortgage
 - e) Adjustable Rate Mortgage
 - f) Variable Rate Mortgage
 - g) Renegotiable Rate Mortgage
 - h) Equity Adjusted Mortgage
 - i) Flexible Loan Insurance Program
 - j) Equity Participation Mortgage
 - k) Growing-Equity Mortgage
 - l) Reverse-Annuity Mortgage
11. Financing Legislation
 - a) Truth in Lending Act
 - (1) Regulation Z
 - (2) Three day right of rescission
 - (3) Advertising

(4) Penalties

- b) Equal Credit Opportunity Act
- c) Community Reinvestment Act of 1977
- d) Real Estate Settlement Procedures Act

12. Incentives (*IREC Guideline #12*)

13. Computerized Loan Origination and Automated Underwriting

- a) Computerized Loan Origination
- b) Scoring and Automated Underwriting

D. Qualifying the Prospective Buyer & Property

- ✓ *List the needed information in determining the qualifications of prospective buyers to purchase real estate.*
- ✓ *List and describe each of the principles of value used in appraisal*
- ✓ *List and describe the steps that constitute the appraisal process*
- ✓ *List the three approaches used to estimate value and steps used in each of these approaches.*
- ✓ *Identify which type of real estate is most suitable for each appraisal approach.*
- ✓ *Calculate the market value using each of the three approaches.*
- ✓ *List the three types of depreciation.*

1. Calculating Amount Buyer Can Pay

- a) Amount of Payment
- b) Financial Calculator Basics

EXERCISE SET—"INTEREST, LOAN AMOUNTS & PAYMENTS"

2. Qualifying the Property, Appraisal Purpose and Function

- a) Elements of Value
 - (1) Utility
 - (2) Scarcity
 - (3) Demand with purchasing power
 - (4) Transferability
- b) Types of Values
 - (1) Assessed value
 - (2) Cash value
 - (3) Book value
 - (4) Exchange value
 - (5) Salvage value
 - (6) Scrap value
 - (7) Insurable value
 - (8) Market value
- c) Market Value Versus Market Price Versus Cost

- d) Basic Economic Principles Of Value
 - (1) Principle of Anticipation
 - (2) Principle of Change
 - (3) Principle of Conformity
 - (4) Principle of Contribution
 - (5) Principle of Increasing and Decreasing Returns
 - (6) Principle of Plottage
 - (7) Principle of Regression and Progression
 - (8) Principle of Substitution
 - (9) Principle of Highest and Best Use
 - (a) *Physically possible uses*
 - (b) *Legally permissible uses*
 - (c) *Economically feasible uses*
 - (d) *Most profitable use*
- e) Forces Influencing Value
 - (1) Physical forces
 - (2) Economic forces
 - (3) Social forces
 - (4) Political forces
- f) Sales Comparison Approach (Market Data Approach)
 - (1) Types of information required when comparing
 - (a) *Date of sale*
 - (b) *Location and amenities and physical features*
 - (c) *Financing concessions*
 - (d) *Economic condition, property rights*
 - (2) Number of comparables
 - (3) Adjustment process
 - (4) Strengths
 - (5) Weaknesses
 - (6) Final estimate by market approach
- g) Cost Approach
 - (1) Value of land (market approach)
 - (2) Estimate of cost new
 - (a) *Reproduction*
 - (b) *Replacement*
 - (3) Methods of calculating cost new

- (4) Estimate and deduction for depreciation
 - (a) *Definition*
 - (b) *Physical deterioration*
 - (c) *Functional obsolescence*
 - (d) *External or economic obsolescence*
 - (e) *Cost new minus depreciation plus land*
- h) Income Approach
 - (1) Gross multipliers
 - (a) *Gross rent multipliers*
 - (b) *Gross income multipliers*
 - (c) *Calculating market value using multipliers*
 - (2) Capitalization of income
 - (a) *Net operating income*
 - (i) *Estimate potential annual income*
 - (ii) *Vacancy and allowance for loss*
 - (iii) *Effective gross income*
 - (iv) *Estimate of expenses (fixed, operating, reserves)*
 - (v) *Net operating income*
 - (b) *Selecting the appropriate capitalization rate*
 - (c) *Final estimate of value*
- i) Final Correlation or Reconciliation of Value
- j) Regulation of Appraisal Activities
 - (1) Licensed or certified appraisers
 - (2) Broker Price Opinions
 - (a) *Who can do a BPO?*
 - (b) *Requirements for report*
- 3. Qualifying the Title, Title Commitment
- 4. Pre-Approval by Lender/Pre-qualified by Lender

E. Showing the Buyer Properties

- ✓ *Describe the actual process and scenarios of showing property to prospective buyers.*
- 1. What Will Best Fit the Needs of Buyer
- 2. Coordinating the Showing of Property

III. WORKING WITH A SELLER AS A CLIENT OR CUSTOMER

 *Mastering (Chapter 13, 15, 18, 19)*

 *Modern (Chapter 4,6,14,15,18)*

 *Idaho Real Estate: Practice & Law (Chapter 1, 2, 13)*

✓ *LEARNING OBJECTIVES: After completing this chapter students should be able to*

A. Listing the Property, Listing Appointment

- ✓ *List and explain five types of listing agreements used by brokers.*
- ✓ *List and describe the information found in most listing contracts.*
- ✓ *Calculate the broker's commission.*
- ✓ *Calculate the selling price in a net listing.*
- ✓ *List and explain the different ways a listing agreement can be terminated.*

1. Preparing for the Appointment
2. Listing Packet, Property Profile
3. The Appointment

B. Qualifying the Seller

1. Motivation
2. Prior Experience as a Seller
3. Cooperation
4. Seller=s Expectations

C. Developing a Marketing Plan

1. What will you do to cause the property to be sold
2. What will you do that other sales associates probably will not do
3. What experience and expertise do you bring to table
4. Does the seller know what you expect of them

D. Measure & Inspect the Property

1. Square Footage Basics

EXERCISE SET—"CALCULATING SQUARE FOOTAGE"

2. Inspection: Red Flags

MEASURE & INSPECT A HOME FIELD TRIP (2 HOURS)

E. Competitive Market Analysis

1. Assisting Sellers in Pricing Property
2. Marketing Strategy
3. Assisting Buyer Clients in Making Offers

EXERCISE SET—"LISTING INFORMATION"

EXERCISE SET—"MATH—CALCULATING SALES PRICE & LISTING PRICE"

F. Seller Representation Agreement

1. Detailed (Line by Line) Analysis of Form
2. Multiple Listing System – Data Input Process
3. Home Inspections – New and Existing Homes
4. Sellers Net Sheet

EXERCISE SET—"SELLER'S ESTIMATED CLOSING STATEMENT"

5. Other Forms that May have to be Done
 - a) Seller Property Disclosure Form
 - b) Lead Paint Disclosure Form
 - c) Annexation Information
 - d) Builder's Required Mechanics Lien Disclosure
 - e) HUD Home Inspection Form
6. Terminating a Listing Contract (IREC Guideline #1)

IV. WRITING AND PRESENTING PURCHASE AND SALE AGREEMENTS



Mastering (Chapter 14)



Modern (Chapter 4, 6)



Idaho Real Estate: Practice & Law (Chapter 7)

- ✓ **LEARNING OBJECTIVES:** *After completing this chapter students should be able to*
- ✓ *Explain the effect of contracts made under duress, fraud, or trickery.*
- ✓ *List the types of contracts that must be in writing.*
- ✓ *List the various ways a contract can be discharged.*

A. Writing an Offer to Purchase

- ✓ *List and explain the rules for handling earnest money deposits.*
 - ✓ *Explain what is considered legally sufficient consideration.*
 - ✓ *Demonstrate how to correctly fill out the purchase and sale agreement form*
 - ✓ *Demonstrate how to calculate the buyer's down payment and closing costs*
 - ✓ *Demonstrate how to calculate the seller's net proceeds*
1. Purchase and Sales Agreement Form
 - a) Detailed line by line analysis of form
 - b) Requirement of the agreement
 2. Purchase and Sales Agreement Form New Construction
 - a) Detailed line by line analysis of form
 - b) Requirement of the agreement
 3. Required Disclosures
 - a) Seller's Property Condition Disclosure
 - b) Annexation
 - c) Builder's Required Disclosure of Mechanics Liens
 - d) Lead-Based Paint Disclosure
 - e) HUD Home Inspection Form
 - f) Buying or Selling for Your Own Account (IREC Guideline #24)
 - g) 3rd Party Referrals
 - h) Adverse Material Facts
 - i) Disclosure of Transaction Fees (IREC Guideline #5)
 4. Addendum Forms
 5. Buyers Net Sheet
 6. Handling Earnest Money or Other Types of Consideration
 - a) Broker's Trust Account
 - b) Commingling
 - c) Disbursement

B. Notes for Writing an Offer

1. Write or type clearly
2. Use specific, unambiguous language. No abbreviations.
3. Fill in all blanks. Never assume that everyone understands what you mean.
4. How will buyers take title?
5. Be sure any contingencies are reasonable and have specific dates upon which contingency must be removed.
6. Fill in all dates, and ensure that all dollar amounts add up.
7. Be sure all parties sign the agreement.
8. Review the agreement to be sure nothing is left out.
9. Make sure all parties get copies of agreement.

C. Presenting Offers to Purchase

- ✓ *List the buyer's remedies if the seller defaults.*
- ✓ *List the seller's remedies if the buyer defaults.*

1. Listing Agent, Selling Agent
 - a) Selling agent make presentation to seller
 - b) Listing agent make presentation to seller
2. Handling Multiple Offers (IREC Guideline #16)
3. Processing if Seller Accepts, Rejects or Counters
 - a) Contact the listing agent immediately
 - b) Be careful to not give details about the offer until it is presented to the seller (especially if the buyer you are working with is a client)
 - c) Make copies for the listing agent and seller for presentation
 - d) Present the offer in a professional manner to the seller and maintain buyer/client confidentiality
 - e) If seller accepts offer be sure to get all seller=s signatures and contact buyer immediately and get the buyers signature
 - f) If counter offer is made contact buyer immediately and advise accordingly
 - g) Once offer, or counter offer is fully accepted be sure to get all signatures and/or initials on all pages as required and deliver copies to all parties
4. Procedures if Buyer Rescinds Offer or Seller Terminates Listing
5. Net Sheets for Seller if Offer Accepted

D. Handling Counter Offers Between the Buyer and Seller

✓ *Explain the differences between a counter offer, addendum or amendment.*

1. Counter offer forms
2. How to use the form (IREC Guideline #19)

E. Amendments to Existing Contract

✓ *Complete an Addendum/Amendment*

F. Contract to Title Company to Open Escrow

1. Preliminary Title Policy
2. Title Commitment

G. Lender Processes Final Loan Documents, Approves Loan

V. CLOSING THE TRANSACTION



Mastering (Chapter 12)



Modern (Chapter 11)



Idaho Real Estate: Practice & Law (Chapter 16)

- ✓ *LEARNING OBJECTIVES: After completing this chapter students should be able to*
- ✓ *Define the term closing as it relates to a real estate transaction.*
- ✓ *Outline the title procedure.*

A. Pre-Closing Procedures

- ✓ *Explain why the buyer should check the premises before the closing.*
 1. Consummation of Real Estate Transaction
 2. Buyer's Issues
 3. Final Property Inspection
 4. Survey
 5. Seller's Issues
 6. Title Procedures

B. Conducting the Closing

- ✓ *Identify and explain the difference between two types of closing methods.*
- ✓ *Identify where closings would likely be held and who would act as the closing agent.*
- ✓ *Define escrow and describe the escrow procedure.*
- ✓ *Describe the process of closing in escrow.*
- ✓ *List the escrow agent's duties.*
 1. Terminology
 2. Face-to-Face Closing
 3. Closing in Escrow
 4. Escrow Procedure
 5. IRS Reporting Requirements (Form 1099-S)

C. Broker Responsibility

D. Lender's Interest In Closing

E. RESPA Requirements

- ✓ *List the types of transactions that would and would not be covered by RESPA.*
- ✓ *List and describe the RESPA requirements and its purpose..*
- ✓ *Describe the various RESPA requirements including those related to disclosure, kickbacks, and escrow monies.*
 1. Purpose
 2. Requirements
 3. Exceptions
 - a) Seller financing
 - b) All Cash Sale

- c) Loan Assumption of the Seller's Mortgage
- 4. Controlled Business Arrangements
- 5. Disclosure Requirements
- 6. Kickbacks and Referral Fees

F. Closing Documents

- ✓ *Explain how existing liens are released during the closing process.*
- ✓ *State the purposes of the Federal Flood Insurance program and whether that program is applicable in the student=s area.*

- 1. Title Insurance Policy
- 2. Current Receipts
- 3. Property Inspection Report
- 4. Lien Releases
- 5. Bill of Sale
- 6. Survey
- 7. Homeowner's Insurance
 - a) Basic Policies & Coverage
 - b) National Flood Insurance Program
- 8. Certificate of Occupancy
- 9. Closing Statement
- 10. Lender Documents
- 11. Deed

G. Closing Statement

- ✓ *Describe each item in the preparation of a closing statement.*
- ✓ *List the three approaches used to calculate prorations.*
- ✓ *Identify the types of expenses that the buyer and seller incur at closing.*
- ✓ *Describe the difference between prepaid and accrued expenses.*

- 1. Expenses for the Seller
- 2. Expenses for the Buyer
- 3. Prorations


EXERCISE SET—"MATH—NET SHEETS & PRORATIONS"

H. Recording of Documents and Funding of Transaction

I. Property Possession

- 1. Who
- 2. When
- 3. How

VI. CLIENT AND CUSTOMER FOLLOW-UP AFTER CLOSING

 *Modern (Chapter 22)*

- ✓ *LEARNING OBJECTIVES: After completing this chapter students should be able to*
- ✓ *Explain the importance of referral business.*
- ✓ *List an example of why not to ask for referral business.*
- ✓ *Describe at least five methods to generate referral business.*

A. “Thank You”

1. Why
2. How

B. Stay in Touch

1. Why
2. How

C. Referrals

1. Why
2. How

VII. CRITICAL THINKING AND ETHICAL APPLICATION

- ✓ *LEARNING OBJECTIVES: After completing this chapter students should be able to*
- ✓ *Apply sound, ethical decision-making skills in real estate situations.*

A. What are Ethics?

B. Code of Ethics

C. Ethical Situations

EXERCISE SET—"ETHICAL SITUATIONS"

SALESPERSON PRELICENSE – CASE STUDY

This is a complete and comprehensive case covering a series of real estate transactions that are all joined together because of the parties to the transactions. This case study involves several different transactions: the selling and purchasing of existing and new construction for two buyers and sellers.

The players:

Martha Grey, single woman
2804 Kootenai
Ipswich, ID 83000
(208) 555-5555
name@email.com

Jeff J. and Nicole T. Brown, married couple
10468 W. Cory Street
Ipswich, ID 83000
(208) 555-5555
name@email.com

Small World Realty
Greg Anderson, salesperson
George Baker, designated broker
111 Main St.
Ipswich, ID 83000
(208) 555-5555
name@email.com

Big Planet Real Estate
Andy Smith, salesperson
Margaret Jones, designated broker
222 Somewhere Ave.
Ipswich, ID 83000
(208) 555-5555
name@email.com

Builder's Realty
Joe Young, salesperson
Tina Scott, designated broker
333 State Street
Ipswich, ID 83000
(208) 555-5555
name@email.com

ABC Builders Construction Company
Fred Dorigt, owner
1000 W. Idaho
Ipswich, ID 83000
(208) 555-5555
name@email.com

Quality Construction Company
George Hammer, owner
1450 N. Mitchell
Ipswich, ID 83000
(208) 555-5555
name@email.com



2804 Kootenai

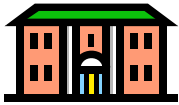


Martha Grey

CASE STUDY FLOW CHART

Part 1

Small World Realty



Parts 5,6,7,8,9,10



10468 W. Cory



Jeff & Nicole
Brown

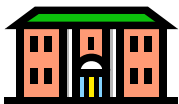
Parts 2,3,4

Big Planet Real Estate



Part 11

Builder's Realty



Part 12



2246 Sunrise St.



ABC Builders

Parts 13,14,15



2318 Glasgow Place



Quality Construction

□ PART 1 □

FACTS FOR PREPARATION OF EXCLUSIVE BUYER REPRESENTATION AGREEMENT

On February 1, 20XX, Martha Grey has signed an Exclusive Buyer Representation Agreement with Agent Greg Anderson, an agent for Small World Realty. In the agreement Martha indicates an interest in both single family and small residential income property in Homey County, Ipswitch, Idaho. The agreement will expire in 90 days. Martha wants housing in the \$80,000 to \$95,000 price range. She is not interested in new construction. She is willing to pay a Buyer Broker Fee of no more than 3%, if Small World Realty cannot get the fee from the listing office in MLS. In the agreement she has agreed to pay a \$500 cancellation fee, and agreed to Limited Dual Agency. There are no other terms or conditions. Small World Realty charges a 5% fee for custom-built homes, and a 3% fee for “For Sale By Owner” listings.

✓ *Complete an Exclusive Buyer Representation Agreement*

□ PART 2 □

FACTS FOR PREPARATION OF EXCLUSIVE RIGHT TO SELL LISTING AGREEMENT (SELLER’S REPRESENTATION AGREEMENT)

Agent Andy Smith from Big Planet Real Estate is holding an open house in a builder’s model. Jeff and Nicole Brown are looking at the model and express a very strong interest in purchasing one of the inventory homes in the subdivision. They like the quality of the builder’s work and also the floor plan of one of the homes that has just been finished. They ask agent Andy Smith to make a listing presentation on their existing townhouse. Mr. Brown indicates he purchased the home four years ago (prior to the marriage) for \$67,000. The agent sets an appointment for the next evening.

The agent orders a listing package (property profile) from the title company. The listing package shows the legal description as: Lot 4, Block 2 of Little Lane Estates Sub. No. 2, Homey County, Idaho, and parcel # R527160240. MLS Area is #600. The townhouse, built in 1965, is single level with a two-car attached garage. When the agent gets to the listing appointment, they will take the time to measure all the rooms and the home. There are two bedrooms – master bedroom is 11’ x 12’ with a small walk-in closet. The second bedroom is 9’ x 10’. There is living room with a wood burning fireplace that is 13’ x 19’. There is a dining area off the kitchen that is 8’ x 10’ and the kitchen is 9’ x 12’. There is one bath and a laundry room.

The home is in the East Side School District. The assigned grade school is Grant, Junior High is Southern and High School is President High School. The property is in the East Side irrigation district. Because the lot is a townhouse lot, it is only 45’ wide and 141’ deep. The public water is from East County Water and is connected to the public sewer and has sidewalks. The home does not require Flood Insurance.

The home has central air conditioning, with forced air gas furnace. There is a wood stove in the living room. The roof is composition shingle and has a new water heater and new garbage disposal. There is hook-up to cable TV. The lot is fully fenced with a six-foot privacy fence and does not have an automated lawn sprinklers. The sellers plan to include in the sale the refrigerator, free standing range and oven, microwave, blinds, dishwasher and storage shed in the back yard. The sellers insist on taking with them the light fixture in the dining room because it is a family heirloom. They will allow up to \$250 to the purchaser to replace this fixture.

The home has all the following features: television antennae, satellite dish and receiving equipment, window screens, screen doors, storm doors, storm windows, window coverings, garage door openers and transmitters, awnings, all electrical and heating systems and plumbing. The seller will take the satellite receiving equipment but leave the satellite dish. They will also leave the wood stove. The property does not have fuel tank or irrigation fixtures.

The home has a nice patio through French doors. The interior walls have been recently repainted. The exterior is in good condition and has good curb appeal. The exterior was repainted two years ago, when the owner enclosed the front porch and made it the entry into the home. There was a building permit issued and code inspections were made, because the owner is a licensed architect. The landscaping shows good pride of ownership. Property taxes for last year were \$706, which includes a homeowner's exemption. The county has assessed the value of the property as land at \$19,250, and the improvements at \$69,000 before the homeowner's exemption. There is a Homeowner's Association, but no Homeowner's Association fees.

Properties in this price range have an average market time of about 105 days. The broker has told the agent that properties like this should be listed for about 150 days. The company policy is for a six percent (6%) commission. The broker also has a policy that if the company both lists and sells, and closes within 90 days that the company will reduce the commission to 5%.

The Listing Agreement is signed and dated on March 10, 20XX, and will expire on August 10, 20XX. The sellers reluctantly have agreed to pay a six percent (6%) commission for the agents efforts, should the agent sell the house and were satisfied by the willingness to reduce the commission to 5% if it sold by the company within the 90 days. The sellers are quite flexible as far as possession is concerned and could vacate the property on the day after closing. If any buyers that look at the property during the listing period come back and buy the property within 30 days of expiration of listing, the seller will be liable for the commission.

The seller wants the property listed in the MLS. The MLS is Intermountain Multiple Listing Service. The seller also authorizes the broker to put a lock box on the property and advertise in print media, on internet, put sign on property and any other advertising media (i.e. radio, TV). The seller has a first mortgage on the property of \$51,750 that was put on four years ago when he bought the property on December 1. The interest rate was 7.75% for 25 years. The loan is not assumable and the payments are current. The seller will consider all offer including FHA, VA, IHFA, CONV and Cash. The sellers will not carry any financing because they need all the money out of the property to purchase their new home.

The sellers have had the property on the market as For Sale By Owner without much success. In consideration for giving the agent an Exclusive Right To Sell listing, they would like to reserve the names of two prospective buyers: (1) Nicole Brown's co-worker John, and John's wife (John and Mary Green) and (2) a U.S. Air Force colonel and his wife (William J. and Sue L. Black). The agent agrees to exclude them for a period of time not to exceed three weeks. The sellers agree with this limitation. The broker agrees to pay selling agent 3% and a buyer's agent 3%. The sellers have agreed to Limited Dual Agency. The company policy of Big Planet Real Estate is to represent buyers and sellers with Limited Dual Agency. The sellers do not want the selling agent to make a direct presentation to the seller. The agent may make an offer presentation but the listing agent must be present.

- ✓ *Complete an Exclusive Seller Representation Agreement*
- ✓ *Complete an Exclusion, Addendum to Listing Agreement*

□ PART 3 □

FACTS FOR PREPARATION OF A COMPETITIVE MARKET ANALYSIS

Now that you have finished all of the information for listing this property, it is now time to price the property and get the seller's agreement on marketing the property.

SOLD PROPERTIES

Comparable No. 1

This townhouse is located at 10555 Cory St. and is Lot 2, Block 1 Little Lane Estates. It sold for \$86,750 with FHA financing. The property was on the market for 266 days before it sold. The house was built in 1962 by System's Construction. The house is 2 bedroom and 1 bath with 2 car attached garage. The house is in the West Side school district. The house has central air conditioning, wood stove fireplace, gas forced air furnace, dishwasher, disposal, breakfast bar, oven/range built in, fully automated lawn sprinklers and hardwood floors. The lot is fully fenced, with a dog run and garden space. It is connected to city sewer and city water. The taxes are \$611 with a homeowner's exemption. There is a hobby room in the garage and shop. It has an east-facing patio. The house is 995 square feet.

Comparable No. 2

This townhouse is located at 8275 Cory St. and is Lot 8 Block 1 Oakridge Court. It sold for \$99,500 with conventional financing. The property was on the market for 38 days before it sold. It was built in 1963. The house has 3 bedrooms and 2 baths with a 2-car garage. The house is in the East Side school district. The house has central air conditioning, with forced gas furnace, electric, and solar. The house has a master bath in the master bedroom, covered patio, and skylights. It is a split bedroom plan with a den and formal dining area. There is cable TV, breakfast bar, dishwasher, disposal, and freestanding oven/range. The lot is partially fenced and has a garden spot. It has an enclosed sun porch and a large back yard. It has a water softener. The taxes were \$1,105 with a homeowner's exemption. It was originally listed for \$104,900. The house is 1,185 square feet.

Comparable No. 3

This townhouse is located at 9562 W. Cory Lane and is Lot 4, Block 1, Killarney Place. It sold for \$87,000 for all cash. It was listed for \$89,900 and was on the market for 20 days. It has 3 bedrooms and 1 bath. The house is 1,215 square feet with a 2-car garage. The house does not have air conditioning, but does have a fireplace. The house is heated with a gas forced air furnace. It has no sprinkler system and the lot is partly fenced. It has cable TV and the kitchen has a freestanding oven/range and refrigerator. It is in an area of newer homes but was built in 1959. The lot is 87 feet wide and 64 feet deep. The property was a rental but was vacant when it sold. Property is in need of some repair. It has city sewer and city water. The property is in the West Side school district.

CURRENT FOR SALE

Comparable No. 1

This townhouse is located at 9834 W. Cory St. and is Lot 24, Block 2, Mitchell Manor. The property is currently listed for \$103,000 and has been on the market for 26 days. It has 2 bedrooms and 1½ baths. The house is 1,205 square feet with a 2-car garage and was built in 1969. The house has central air conditioning and a fireplace. The house is heated with a gas forced air furnace. The kitchen features are a breakfast bar, dishwasher, oven/range freestanding, and pantry. The yard is fully fenced and has a garden space. There are no sprinklers. It has city sewer and city water. The taxes for the last year are \$963 with the homeowner's exemption. The lot is 80 feet wide and 105 feet deep. It is in the West Side school district.

Comparable No. 2

This townhouse is located at 10069 Cory St. and is Lot 2, Block 3, Mitchell Manor. The property is currently listed for \$97,900 and has been on the market for 38 days. It has 3 bedrooms and 1 bath. The house is 1,100 square feet with a 2-car garage. The house has central air conditioning and is heated with a new gas forced air furnace. The house has a new garage opener. House exterior is to be painted prior to closing. The sale is subject to the seller locating suitable housing. It has a covered patio. Seller has never used the wood stove in the living room. Level pay gas is \$45 per month. NOTE: DOGS IN BACK YARD MAY NOT BE FRIENDLY. The house is in the West Side school district. The house was built 1965 by Kerr Construction and taxes for this last year were \$895 with the homeowner's exemption.

Comparable No. 3

This townhouse is located at 10356 W. Cory St. and is Lot 14 Block 2, Little Lane Estates. The property is currently listed for \$99,900 and has been on the market for 80 days. It has 2 bedrooms and 2 baths. The house is 1,193 square feet with a 2-car garage. The house has a window/wall unit air conditioning. It does not have a fireplace. The house is heated with electric baseboard heaters. The house was built in 1963. It is in the West Side school district. The kitchen features dishwasher, disposal and oven/range built in. The lot is fully fenced and has a fully automated lawn sprinkler. The property taxes were \$837 with the homeowner's exemption. It has cable TV and city services and water. It is two-story with a large yard. New exterior paint and some new interior paint.

Comparable No. 4

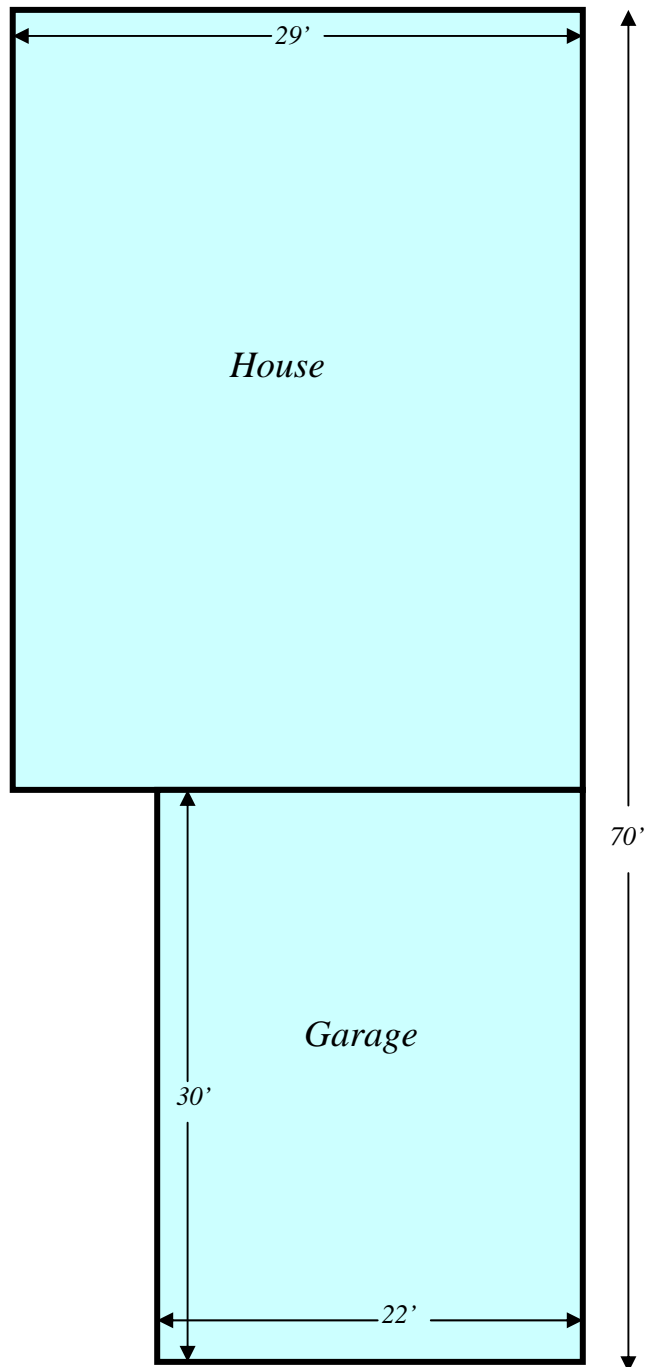
This townhouse is located at 10358 W. Cory St. and is Lot 13 Block 2, Little Lane Estates #2. The property is currently listed for \$96,900. It has been on the market for 180 days and was originally listed for \$112,750. The price was just reduced another \$6,000 to get to the current list price. The townhouse has 1,093 square feet with a 2-car garage. The lot is 43 feet wide by 142 feet deep and is fully fenced with an automatic sprinkler system. Newly painted inside and out, it was built in 1965 and has 2 bedrooms and 1½ baths. The kitchen has a dishwasher, disposal, oven/range freestanding and refrigerator. It has a window/ wall unit air conditioning and electric baseboard heating.

✓ *Prepare a Comparative Market Analysis, including recommended selling price.*

□ PART 4 □

FACTS FOR DETERMINING SIZE OF HOME

- ✓ Calculate the correct square footage of the home, based upon acceptable industry standards



□ PART 5 □

FACTS FOR PREPARATION OF PURCHASE AND SALES AGREEMENT AND BUYER REPRESENTATION AGREEMENT

Agent Greg Anderson shows Martha Grey the property located at 10468 W. Cory St., and she agrees to make an offer. Although she cannot write an earnest money check for more than \$500, her father, Charles Goodfather, gifts her a \$5,000 earnest money check. The date of this purchase agreement is March 11, 20XX.

Martha's offer is for \$8,000 less than the property is listed for with the seller to carry back a purchase money Deed of Trust for \$10,000 at 7% amortized over 15 years with a balloon payment in 10 years. She will obtain a new FHA loan for the balance of the purchase price. This FHA fixed rate loan is for an amount necessary to purchase the property with an interest rate not to exceed 7% with 2 points for 25 years. She will bring the necessary cash for closing costs to closing. The long-term escrow holder will be Good Title Company and long-term escrow fees and set-up fees will be paid equally.

She is agreeable to letting the seller keep the dining room chandelier and won't ask for the \$250 allowance for another light fixture in exchange for the whirlpool washer and dryer in the laundry room. She also wants the satellite receiver equipment. She insists on having a home inspection within 5 days of acceptance. All time periods for satisfaction or removal of inspections contingency will be 5 days. She also wants to have the side yard fenced off before closing so she can include this cost in her loan. The buyer is to get the property tested for lead paint within 5 days of acceptance of offer, and buyer does not wave the right to rescind.

She has not been pre-approved or pre-qualified by any lender. She states in the purchase agreement that she will make application within 5 days of acceptance of offer. Within 8 business days of final acceptance, she will furnish a written loan commitment and financial statement. She wants the "Good Title Company" to do the title policy, preliminary report of commitment and the escrow closing. Martha received the Seller's Property Disclosure Form when she looked at the property the first time. She waives the right to rescind because she is having a home inspection done. This property is also old enough that it falls under the targeted housing for lead paint disclosure. She received a copy of the CC&R's for the subdivision. The subdivision homeowner's association for this property does not collect any dues or have any fees related to set up or transfer.

The costs to be paid will be those required for the seller to pay for an FHA loan. All other costs will be split equally or not be applicable. Martha wants the sellers to pay up to \$500 in lender repair costs only. The final walk through will be within 3 days prior to close of escrow.

Martha wants to close 180 days from the date of acceptance of offer and would like possession on the day of closing. Seller is given until March 14, 20XX, at 6 p.m. to accept the offer. The MLS agreement between the brokerage firms states that Big Planet Real Estate will pay a 3% commission to the selling agent and will also pay a 3% commission to the buyer's agent. The selling agent cannot present the offer directly to the seller without the listing broker being present.

Seller shall furnish commitment of title insurance. Buyer shall have 8 business days to object in writing.

- ✓ *Complete a Purchase and Sale Agreement*
- ✓ *Complete a Financing Addendum*

□ PART 6 □

FACTS FOR PREPARATION OF COUNTER OFFER

After presenting the buyer's offer, the sellers are not willing to accept the offer but will counter offer. On March 12, 20XX, at 10:00 a.m. the sellers counter offer at \$2,000 under the listed price. They will not carry a second because they need all of the equity out of the sale so they can buy their new home.

They agree to pay up to no more than \$200 in lender repair costs. They will not allow the buyer to have the fencing done prior to closing.

They also insist that the closing and title reports be done by the Best Title Company because the seller (Nicole) works there in the customer service department. The seller will also continue to market the property until the buyer has been pre-approved for a loan. The buyer must accept the offer by 6 p.m. on March 14, 20XX.

The sellers also want the buyer to agree to allow them to continue to market the premises and accept other offers. This requirement will require the seller to give buyer at least 24 hours written notice of accepting another offer.

✓ *Complete a Counter Offer*

□ PART 7 □

FACTS FOR PREPARATION OF COUNTER OFFER TO COUNTER OFFER

The buyer is satisfied with most of the counter offer requirements, but decides to counter at \$3,000 under list price, and wants the seller to pay the total closing escrow fee as a trade off for using the Best Title Company because the buyer knows that the title company is her choice. She accepts every other term and requires seller acceptance by 6:00 p.m. on March 16, 20XX. The counter offer is written on March 14, 20XX, at 1:15 p.m. and was presented to the seller at 3:30 p.m. on March 15, 20XX, at which time the sellers accept the offer.

✓ *Complete a Counter Offer*

□ PART 8 □

FACTS FOR PREPARATION OF AN AMENDMENT FOR HOME INSPECTION CONTINGENCY TO THE PURCHASE AND SALES AGREEMENT

With the accepted offer, the buyer had a home inspection done at her expense and received the report about 4 days after acceptance of the offer and counter offers. However, there was some question about the home inspector's professional ability and competence. The report was hand written and was almost impossible to read. He stated that the heat pump needed to be serviced, when in fact there was a service report directly on the air conditioning unit. The heating system is a gas forced air furnace that had been serviced in the last 90 days. He found a slight drip in the main water shut off valve in the crawl space. He stated that the plug in the kitchen needed to have a ground fault interrupter installed to be up to code.

He also stated that the garage lights which were shop lights were not to code because were only plugged into a ceiling outlet, they did not have conduit to them, and needed to be replaced with regular light bulb fixtures. He also stated that the fireplace must be cleaned yet he had been given evidence that the fireplace had been cleaned 120 days earlier. He also stated that the window in the kitchen with a slight level of moisture must be replaced. The buyer had observed this when she looked at the property but did not say anything about it in the offer. The sidewalk to the front entrance had a slight crack and the home inspector said it had to be fixed and sealed. He also stated that the carpet needed to be cleaned.

The buyer's agent sends an addendum or amendment (the agent didn't mark either box) listing the above items that were found in the home inspection report. The buyer does not make application for a loan, stating that she will not make application until the items found in the home inspection have been agreed to. (The actual addendum/amendment is not included in this case study.) The seller states that the only items they will pay for are the items that the FHA inspection will require. These items will not be known until the loan application is completed, and the seller notifies the buyer to either make the application for a loan or the seller will terminate the purchase and sales agreement.

The seller sends the following letter to the agents:

"For your information pertaining to the listed items in the home inspection, the lighting in the garage as it is, is up to code and frankly provides better light than what she is asking for. The water main may need to be replace but may be a required item of the FHA appraisal and would fall under the Purchase and Sale Agreement. I have a receipt that the Furnace/AC unit was serviced and repaired within the last 90 days; in addition the unit is not a heat pump as listed in the inspection report. The chimney was cleaned 120 days before the inspection as Nicole had communicated to the home inspector. We feel that the kitchen window should have been included in the Purchase and Sale Agreement. The GFI outlet for the kitchen, bath, and garage is located in the garage above the workbench and is as per code and works properly. I will not bring the entire house up to current code. The house is up to code at the time it was constructed.

"The front sidewalk is level and not showing any signs of breakup. The step is no more than what is allowed per code and will not be repaired by us. Chem Dry cleaned the carpets professionally six months ago and we cleaned them just prior to listing, we will not clean carpets again so that she can have her dog in the house. The carpets were also given a grade A by the inspector showing "normal wear". We are nearly beyond the end of our rope and not far from backing out of this sale completely. We do not have to sell this property and can simply refinance and rent without interrupting the completion of our new home."

On March 22, 20XX, the sellers instruct their agent to do an amendment stating: (1) Seller will not pay for repairs as mentioned in the Addendum/Amendment #1 per inspection report. Buyer to pay for these repairs; (2) Seller will pay for lender-required repairs up to \$200 as per original offer; (3) Seller will not service air conditioning unit because it was serviced earlier. Receipt attached. Heating unit is gas forced air unit not a heat pump. The seller also instructs the agent to send a copy of the letter to the other agent and the buyer.

The buyer makes the required loan application. The only item found in the FHA inspection was the leak in the main water shut off. Many of the items in the home inspection were items the seller will not correct or pay for. The seller agreed to pay for the following: (1) correct the main water shut off valve leak in the crawl area; (2) to fix the window in the kitchen; and (3) take down the lights in the garage and install regular lights as requested. On March 22, 20XX, the buyer agrees and signs the amendment.

✓ *Complete an Addendum/Amendment (#2)*

□ PART 9 □

FACTS FOR TAKING CARE OF SELLER'S RIGHT TO CONTINUE TO MARKET THE PREMISES AND ACCEPT OTHER OFFERS

On March 23, 20XX, the buyer and seller have agreed on the inspection contingency, and then the seller receives another offer on the property. This offer is a better offer than the first offer and the seller accepts it as a back up offer. The same day at noon, the seller gives the required notice to the buyer of the acceptance of another offer and gives the buyer the agreed upon time to remove the contingency. The buyer removes the contingency on the same day at 5 pm, and the seller receives notice that day.

- ✓ *Complete a Seller's Right to Continue to Market Premises*
- ✓ *Complete the process to remove the contingency*

□ PART 10 □

FACTS FOR PREPARATION OF ESCROW CLOSING

The buyer and sellers have come to an agreement, and the purchase and sales agreement and amendments have been submitted to the title company for escrow closing and issuance of the preliminary title commitment. You will receive a preliminary title commitment from your instructor.

- ✓ *Review a preliminary title commitment*

□ PART 11 □

FACTS FOR PREPARATION OF BUYER REPRESENTATION AGREEMENT FOR PURCHASE OF NEW HOME BY JEFF AND NICOLE BROWN

Jeff and Nicole were not satisfied with the way their agent handled the sale of their townhouse. They have found another real estate agent, Joe Young with Builder's Realty, to handle their purchase of a new construction home. The agent represents several builders and will also represent the buyer, requiring a limited disclosed dual agency.

Jeff and Nicole ask the agent to find them a new construction home in Homey County. They want to look at both existing spec homes and also the possibility of having a home built. Jeff and Nicole would like the broker to get payment for buyer broker fees from the listing broker up to the amount offered. They agree to pay up to 3% of the purchase price in a buyer broker fee. If they purchase without using the broker they agree to pay a cancellation fee of \$1,000. They have no problem with agreeing to Limited Dual Agency. They sign a Buyer Representation Agreement with Builder's Realty on March 20, 20XX, for 120 days.

Jeff and Nicole are pre-approved for a loan of \$185,000 and have \$30,000 for the down payment and closing costs.

- ✓ *Complete an Exclusive Buyer Representation Agreement*

□ **PART 12** □

**FACTS FOR PREPARATION OF TERMINATION OF EXISTING CONTRACT AND
RELEASE OF EARNEST MONEY**

Jeff and Nicole find a partially constructed home that Builder's Realty has listed. The home is being built by ABC Builders and is located at 2246 Sunrise Street, Ipswitch, Idaho 83000. Jeff and Nicole make an offer with an earnest money check of \$2,000, and ABC Builders accepts the offer. The earnest money is dated March 23 and is ID# 003344. Four days after signing the agreement Builder's Realty notifies Jeff and Nicole that ABC Builders cannot finish the home as required. The Builder has filed for bankruptcy. The broker has a signed "Notice to Terminate Contract and Release of Earnest Money" dated March 27, 20XX, from ABC Builders. The entire amount of earnest money will be returned to Jeff and Nicole.

✓ *Complete the Notice to Terminate Contract and Release of Earnest Money*

□ **PART 13** □

**FACTS FOR PREPARATION OF SELLER REPRESENTATION AGREEMENT FOR
SALE OF HOME BY QUALITY CONSTRUCTION TO JEFF AND NICOLE BROWN**

George Hammer, owner of Quality Construction Company, uses Builder's Realty to market his homes. George always pays a full 6% commission. There is an overall agreement to market his houses but he signs a specific representation agreement when he gets a specific build job on a specific lot.

Jeff and Nicole have selected Lot 3 Block 4, Edinburgh Place, Homey County. The street address of the home is 2318 Glasgow Place, Ipswitch, ID 83000, that has been optioned by Quality Construction. George Hammer agrees to pay a 6% commission on the contract price, not including any upgrades that are done. He also agrees to limited dual agency. The term of the agreement shall be for 180 days after the agreement with Jeff and Nicole is signed. The seller will pay all the required costs for any loan program that the buyer uses.

The property will be reported to Intermountain Multiple Listing Service and will not have a lockbox. Because this house is being built for a specific buyer, the builder will not authorize the broker to do any advertising. This agreement will be from March 30, 20XX, to August 25, 20XX.

✓ *Complete an Exclusive Seller Representation Agreement*

□ PART 14 □

FACTS FOR PREPARATION OF PURCHASE AND SALES AGREEMENT FOR PURCHASE OF NEW HOME BY JEFF AND NICOLE

Based on the plans that the Browns decided to use for their new house and the cost of the lot, the house will cost \$191,200 plus closing costs. The plans are for the Pine model with the garage orientation to the right. These plans are also registered with FHA/VA as number 665544AB. The buyer is making the purchase based on a model home and an FHA/VA Registered Plan. They give the builder's agent an earnest money check for \$2,000 (non refundable). Jeff and Nicole want to have Quality Builders build the home on Lot 3 Block 4 of Edinburgh Place. The street address of the property will be 2318 Glasgow Place, Ipswitch, Idaho 83000. The builder owns the lot.

The subdivision homeowner's association collects \$50 per month in dues. There is a \$200 set up fee and transfer fee of \$100. The buyer wants the seller to pay for the set up and transfer fees. The property will be connected to city sewer and water. It will be connected to natural gas, have cable TV, and pressurized irrigation. The subdivision developer will install the mailbox.

The builder will provide a warranty for a minimum period of 2 years from the date of closing. The buyers want a home inspection done prior to closing to be paid for by the builder. Jeff Brown is an architect and will do a punch list of required items prior to closing. The corner property pins have been located, so the fences can be installed. The buyer wants the builder to pay for the appraisal, document preparation fees, flood tracking and flood certification fee and an Owner's Extended Title Insurance Policy. The builder is willing to use the Best Title Company. The buyer will have 5 days to object to the condition of the title. The buyer shall have at least 5 days prior to closing for a final walk through. The buyer agrees to close within 7 days after notice from builder of substantial completion. The original closing date was set for 180 days after final contract agreement. The date on the New Construction Purchase and Sales Agreement is April 2, 20XX.

The buyers will get possession on the day of closing. This sale is subject to the sale and closing of their existing townhouse that is currently listed with Big Planet Real Estate. They have sold the townhouse with a closing scheduled for five days after the close of their home. During the building process there have been a number of upgrades to the home for a total of \$7,250. On April 20, 20XX, an Amendment is completed to include the following upgrades: \$2,800 for larger jetted bathtub in the master bedroom; \$3,000 for upgrades of the kitchen cabinets and counter tops; and \$1,450 for a central vacuum system.

- ✓ *Complete a Pre-Sold New Construction Purchase and Sale Agreement*
- ✓ *Complete an Amendment*

□ PART 15 □

FACTS FOR PREPARATION OF ESCROW CLOSING

The builder and buyers have come to an agreement and the buyer has deposited an additional nonrefundable check for \$2,000 toward the purchase price to cover the cost of preparation of the blue prints. The purchase and sales agreement has been submitted to the title company for escrow closing and issuance of the preliminary title commitment. You will receive a preliminary title policy from your instructor.

- ✓ *Review the Preliminary Title Policy*

BLANK FORMS

PART 1

Exclusive Buyer Representation Agreement

PART 2

Exclusive Seller Representation Agreement
Exclusion, Addendum to Listing Agreement

PART 5

Purchase and Sale Agreement
Financing Addendum

PART 6

Counter Offer

PART 7

Counter Offer

PART 8

Addendum/Amendment

PART 9

Seller's Right to Continue to Market Premises

PART 10

Preliminary Title Commitment

PART 11

Exclusive Buyer Representation Agreement

PART 12

Notice to Terminate Contract and Release of Earnest Money

PART 13

Exclusive Seller Representation Agreement

PART 14

Pre-Sold New Construction Purchase and Sale Agreement
Amendment

PART 15

Preliminary Title Commitment

Because the Idaho Real Estate Commission does not design, revise, sell, or approve forms for real estate transactions, any actual forms used herein are as samples only, and used with permission of copyright owners. They are not intended to be an endorsement of any particular form. If the instructor wishes, he/she may provide information concerning the examples used in the case study on the forms generally in use in his/her area of the state.

Schedule A

COMMITMENT

Order No. 223855

High Rate Mortgage
8888 Finance Drive
Ipswitch, Idaho

Inquiries Should Be directed to:
Tom Cruise
Senior Title Officer
Ipswitch, Idaho

1. Effective Date: March 17, 20XX

2. Policy or Policies to be issued:	Policy Amount	Amount Premium
(a) <input type="checkbox"/> ALTA Owner's Policy – Standard Coverage Proposed Insured:: Martha Grey Endorsements:	\$94,000.00	\$584.00
(b) <input type="checkbox"/> ALTA Loan Policy – Extended Coverage Proposed Insured: High Rate Mortgage Endorsements:	\$83,000.00	\$208.65
8.1		\$ 10.00
100 / 116		\$ 40.00
Pud End.		\$ 50.00

3. The estate or interest in the land described or referred to in this Commitment and Covered herein is:

Fee Simple

4. Title to the Fee Simple estate or interest in said land is at the effective date hereof vested in:

Jeff J. Brown, a married man

5. The land referred to in this Commitment is described as follows:

SEE ATTACHED EXHIBIT A

3539
ALTA Commitment Form

Schedule A page 1 of 2 pages(s)

Schedule A

COMMITMENT

Order No. 223855

EXHIBIT A

Lot 4 of Block 2 of Little Lane Estates Sub. No. 2 – Homey County, Ipswitch, Idaho.

3539
ALTA Commitment Form

Schedule A page 2 of 2 pages(s)

Schedule B – Section II

COMMITMENT

EXCEPTIONS

Order Number: 223855

Schedule B of the policy or policies to be issued will contain exceptions to the following matters unless the same are disposed of to the satisfaction of the Company.

1. Defects, liens, encumbrances, adverse claims or other matters, if any, created, first appearing in Public records, or attaching subsequent to the effective date hereof but prior to the date the proposed insured acquires of record for value the estate or interest or mortgage thereon covered by this Commitment.
2. General Exceptions:
 - (a) Rights or claims of parties In possession not shown by the public records.
 - (b) Encroachments, overlaps, boundary line disputes, and any other matters which would be disclosed by an accurate survey or inspection of the premises including, but not limited to, insufficient or impaired access or matters contradictory to any survey plat shown by the public records.
 - (c) Easements, or claims of easements, not shown by the public records.
 - (d) Any lien, or right to a lien, for services, labor, or material heretofore or hereafter furnished, imposed by law and not shown by the public records.
 - (e) (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims to title to water, whether or not the matters excepted under (a), (b) or (c) are shown by the public records.
 - (f) Taxes or special assessments which are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the public records. Proceedings by a public agency which may result in taxes or assessments, or notices to such proceedings, whether or not shown by the records of such agency or by the public records.

* PARAGRAPHS A, B, C, D, E AND F WILL NOT APPEAR AS PRINTED EXCEPTIONS ON EXTENDED COVERAGE POLICIE, EXCEPT AS TO SUCH PARTS THEREOF, WHICH MAY BE TYPED AS A SPECIAL EXCEPTION IN SCHEDULE B – SECTION II.

ORT FORM 3541
ALTA Commitment Form – 1982

Schedule B-II page 1 of 1 page(s)

Schedule C

COMMITMENT

SPECIAL EXCEPTIONS

Order Number: 223855

1. General taxes for the year 20XX, which are liens, are not yet due and payable.
2. Sewerage charges and special assessment power of the City of Ipswich. No special assessments now shown of record.
3. Liens and assessments of the following district and rights and powers thereof as provided by law. No delinquencies appear in the county recorder's office. District: Settlers Irrigation District (333-4444).
4. Covenants, conditions, restrictions and easements as set forth on said plat.
5. Covenants, conditions, restrictions and easements.
6. Covenants, conditions, restrictions and easement
Executed by: Joe R. Developer and Marilyn Developer
Recorded: March 23, 1962
Instrument No. 62027416
7. Liens, dues and or assessments owing the association herein named which may have heretofore attached pursuant to the provisions of covenants, conditions and restrictions.
Association: Little Lane Home Owners Association, Inc.
8. Letter executed by Central District Health Department
Dated: October 1, 1962
Recorded: December 2, 1962
Instrument No: 62005555
Providing: No lot size may be reduced without prior approval of the health authority.
9. Matters disclosed by Record of Survey
Recorded: November 17, 1963
Instrument No.: 63110333
Survey No.: 9447

ORT FORM 3541
ALTA Commitment Form – 1982

Schedule C page 1 of 3 page(s)

Schedule C

COMMITMENT

SPECIAL EXCEPTIONS

Order Number: 223855

10. A Deed of Trust to secure an indebtedness of \$51,750, and any other amounts as therein provided, payable under the terms, conditions, provisions and stipulations thereof.

Dated: May 24, 19XX

Grantor: Jeff J. Brown, an unmarried person

Trustee: Best Title Company

Beneficiary: High Rate Mortgage

Recorded: May 28, 19XX

Instrument No.: 99054429

11. Judgment for the amount herein stated and other amounts due.

Creditor: Shjubneesh Batra

Monica Batra

\$8,429.70

Case No.: CV DR 97-02582D

Recorded: January 29, 20XX

Instrument No.: 102011533

Attorney for Creditor: Stanley W. Smith, Smith, Smith, Smith

12. Notice of Secretary of State Lien for amounts due (undisclosed).

Filed Date: September 20, 19XX

Expiration Date: September 20, 20XX

Against: Yvonne L. Green

Social Security No.: 519-XX-3333

Filing Type: T

Filing No.: 131034

Contact Person/Phone No.: 332-XXXX

13. Financing Statement filed under the provisions of the Uniform Commercial Code.

Debtor: Jeff J. Brown and Nicole T. Brown

Secured Party: XYZ Bank

Recorded: August 13, 20XX

Instrument No.: 9823445

14. Notice of Federal Tax Lien for the amount herein stated and any other amounts due

Against: Jeff J. Brown

Amount: \$325.27

Recorded: November 5, 1999

Instrument No.: 9834566

Identification No.: 510-00-0001

ORT FORM 3541

ALTA Commitment Form – 1982

Schedule C page 2 of 3 page(s)

Schedule C

COMMITMENT

SPECIAL EXCEPTIONS

Order Number: 223855

15. The encroachment of a fence along the easterly side of said property as disclosed by a physical inspection of said land.
16. Matters which may be disclosed by a search of the records against the name of the spouse of the party named if married:
Party: Nicole T. Brown

End of Exceptions

NOTE: Matters dependent upon inspection of the promise have been cleared for Extended Mortgagee's Policy as of date set forth herein. Paragraphs 1 thru 6 of the General Exceptions Schedule B will be eliminated on said policy. ALTA Mortgagee's Policy when issued will contain the ALTA 100 Endorsements.

Dated:

NOTE: According to the information supplied to the Company, the Ipswitch County Assessor's Office lists the following as common address for the subject property:

10468 W. Cory Street
Ipswitch, Idaho 83000

NOTE: There is no notice of record and therefore no search has been made for any unpaid assessments, charges or fees for sewer, water, garbage, irrigation or other possible utility services.

NOTE: If the proposed insured under the Policy to issue has any questions concerning the coverage or exclusions from coverage, the Company will be pleased to provide an explanation.

NOTE: Pursuant to the State of Idaho Insurance Regulations, a cancellation fee is to be charged on all cancelled orders. Unless otherwise advised, orders will be considered canceled six months after the effective date on the Commitment. The amount of the fee assessed shall be in accordance with our rate filing with the Idaho Department of Insurance.

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ALTA Commitment Form – 1982

Schedule C page 3 of 3 page(s)

Schedule A

COMMITMENT

Order No. 333866

Low Rate Mortgage
9999 Finance Drive
Ipswitch, Idaho

Inquiries Should Be directed to:
Tom Cruise
Senior Title Officer
Ipswitch, Idaho

1. Effective Date: April 4, 20XX

2. Policy or Policies to be issued:		Policy Amount	Amount Premium
(a) <input type="checkbox"/>	ALTA Owner's Policy – Extended Coverage Proposed Insured:: Jeff J. Brown & Nicole T. Brown Endorsements: None	\$198,450.00	\$947.00
(b) <input type="checkbox"/>	ALTA Loan Policy – Extended Coverage Proposed Insured: Low Rate Mortgage Endorsements: 8.1 100 / 116 Pud End.	\$158,500.00	\$319.50 \$ 10.00 \$ 40.00 \$ 50.00

3. The estate or interest in the land described or referred to in this Commitment and Covered herein is:

Fee Simple

4. Title to the Fee Simple estate or interest in said land is at the effective date hereof vested in:

George Hammer – dba Quality Construction Company

5. The land referred to in this Commitment is described as follows:

SEE ATTACHED EXHIBIT A

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ALTA Commitment Form

Schedule A page 1 of 2 pages(s)

Schedule A

COMMITMENT

Order No. 443866

EXHIBIT A

Lot 2 of Block 1 of Estates Subdivision – Homey County, Ipswitch, Idaho.

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ALTA Commitment Form

Schedule A page 2 of 2 page(s)

Schedule B – Section II

COMMITMENT

EXCEPTIONS

Order Number: 443866

Schedule B of the policy or policies to be issued will contain exceptions to the following matters unless the same are disposed of to the satisfaction of the Company.

1. Defects, liens, encumbrances, adverse claims or other matters, if any, created, first appearing in public records, or attaching subsequent to the effective date hereof but prior to the date the proposed insured acquires of record for value the estate or interest or mortgage thereon covered by this Commitment.
2. General Exceptions:
 - (a) Rights or claims of parties in possession not shown by the public records.
 - (b) Encroachments, overlaps, boundary line disputes, and any other matters which would be disclosed by an accurate survey or inspection of the premises including, but not limited to, insufficient or impaired access or matters contradictory to any survey plat shown by the public records.
 - (c) Easements, or claims of easements, not shown by the public records.
 - (d) Any lien, or right to a lien, for services, labor, or material heretofore or hereafter furnished, imposed by law and not shown by the public records.
 - (e) (a) Unpatented mining claims; (b) reservations or exceptions in patents or in Acts authorizing the issuance thereof; (c) water rights, claims to title to water, whether or not the matters excepted under (a), (b) or (c) are shown by the public records.
 - (f) Taxes or special assessments which are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the public records. Proceedings by a public agency which may result in taxes or assessments, or notices to such proceedings, whether or not shown by the records of such agency or by the public records.

* PARAGRAPHS A, B, C, D, E AND F WILL NOT APPEAR AS PRINTED EXCEPTIONS ON EXTENDED COVERAGE POLICIE, EXCEPT AS TO SUCH PARTS THEREOF, WHICH MAY BE TYPED AS A SPECIAL EXCEPTION IN SCHEDULE B – SECTION II.

ORT FORM 3541
ALTA Commitment Form – 1982

Schedule B-II page 1 of 1 page(s)

Schedule C

COMMITMENT

SPECIAL EXCEPTIONS

Order Number: 443866

1. General taxes for the year 20XX, which are liens, are not yet due and payable.
2. Sewerage charges and special assessment power of the City of Ipswich. No special assessments now shown of record.
3. Liens and assessments of the following district and rights and powers thereof as provided by law. No delinquencies appear in the county recorder's office. District: Settlers Irrigation District (333-4444)
4. Covenants, conditions, restrictions and easements as set forth on said plat.
5. Covenants, conditions, restrictions and easements.
6. Covenants, conditions, restrictions and easement
Executed by: Land Development Company
Recorded: October 23, 20XX
Instrument No. 03027425
7. Liens, dues and or assessments owing the association herein named which may have heretofore attached pursuant to the provisions of covenants, conditions and restrictions.
Association: Estates Home Owners Association, Inc.
8. Matters disclosed by Record of Survey
Recorded: November 17, 1963
Instrument No.: 63110393
Survey No.: 4447

ORT FORM 3541
ALTA Commitment Form – 1982

Schedule C page 1 of 3 page(s)

Schedule C

COMMITMENT

SPECIAL EXCEPTIONS

Order Number: 443866

9. A Deed of Trust to secure an indebtedness for a construction loan of \$185,000, and any other amounts as therein provided, payable under the terms, conditions, provisions and stipulations thereof.

Dated: April 6, 20XX

Grantor: George Hammer – dba Quality Construction Company

Trustee: Best Title Company

Beneficiary: Low Rate Mortgage

Recorded: April 7, 20XX

Instrument No.: 03054429

10. Financing Statement filed under the provisions of the Uniform Commercial Code.

Debtor: Jeff J. Brown and Nicole T. Brown

Secured Party: XYZ Bank

Recorded: August 13, 20XX

Instrument No.: 9823445

11. Notice of Federal Tax Lien for the amount herein stated and any other amounts due

Against: George Hammer – dba Quality Construction Company

Amount: \$ 28,750.00

Recorded: November 5, 20XX

Instrument No.: 0234577

Identification No.: 610-00-0016

12. The encroachment of a fence along the easterly side of said property as disclosed by a physical inspection of said land.

13. Pendency of proceedings in the United States District Court wherein the Party herein named was adjudicated a Bankrupt under Chapter 11, and the Plan was confirmed on the date herein set forth:

Case No. 02-12345

Party: George Hammer – dba Quality Construction Company

Date Plan confirmed: May 1, 20XX

14. Matters which may be disclosed by a search of the records against the name of the spouse of the party named if married:

Party: Mary Hammer

ORT FORM 3541

ALTA Commitment Form – 1982

Schedule C page 2 of 3 page(s)

Error! **Schedule C**
COMMITMENT

SPECIAL EXCEPTIONS

Order Number: 443866

End of Exceptions

NOTE: Matters dependent upon inspection of the promise have been cleared for Extended Mortgagee's Policy as of date set forth herein. Paragraphs 1 thru 6 of the General Exceptions Schedule B will be eliminated on said policy. ALTA Mortgagee's Policy when issued will contain the ALTA 100 Endorsements.
Dated:

NOTE: According to the information supplied to the Company, the Ipswitch County Assessor's Office lists the following as common address for the subject property:
2246 Sunrise Street
Ipswitch, Idaho 83000

NOTE: There is no notice of record and therefore no search has been made for any unpaid assessments, charges or fees for sewer, water, garbage, irrigation or other possible utility services.

NOTE: If the proposed insured under the Policy to issue has any questions concerning the coverage or exclusions from coverage, the Company will be pleased to provide an explanation.

NOTE: Pursuant to the State of Idaho Insurance Regulations, a cancellation fee is to be charged on all cancelled orders. Unless otherwise advised, orders will be considered canceled six months after the effective date on the Commitment. The amount of the fee assessed shall be in accordance with our rate filing with the Idaho Department of Insurance.

ORT FORM 3541
ALTA Commitment Form – 1982

Schedule C page 3 of 3 page(s)

EXERCISE SETS

Interest, Loan Amounts & Payments

Calculating Square Footage

Listing Information

Math – Calculating Sales Price and Listing Price

Seller's Estimated Closing Statement

Math – Net Sheets & Prorations

Ethical Situations

EXERCISE SET
INTEREST, LOAN AMOUNTS & PAYMENTS

1. A \$207,500 mortgage loan interest at six & three-quarter (6.75%) percent for 20 years requires equal monthly payments for interest and principal. How much are the monthly payments? How much of this total monthly payment is interest and how much is principal for the first and second months of the loan period?

2. Set up a table of amortization for a \$137,000 loan to be amortized monthly at six percent interest over twenty (15) years, showing all entries for total payments, interest, principal and balance due for the first two months of the loan periods.

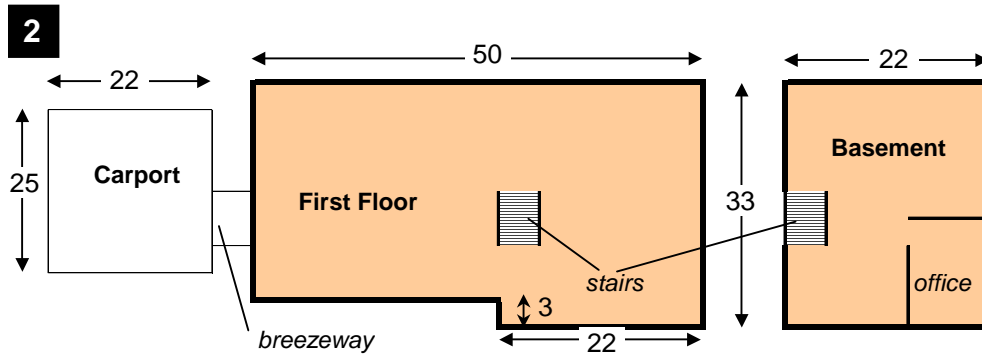
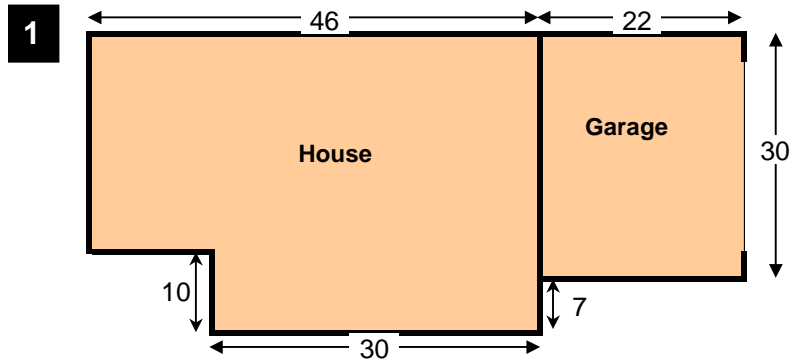
3. What was the interest rate charged if a \$65,000 loan returned \$71,360 in principal and interest after one year?

4. How much was borrowed if the interest at ten percent came to \$22,900 in fifteen months?

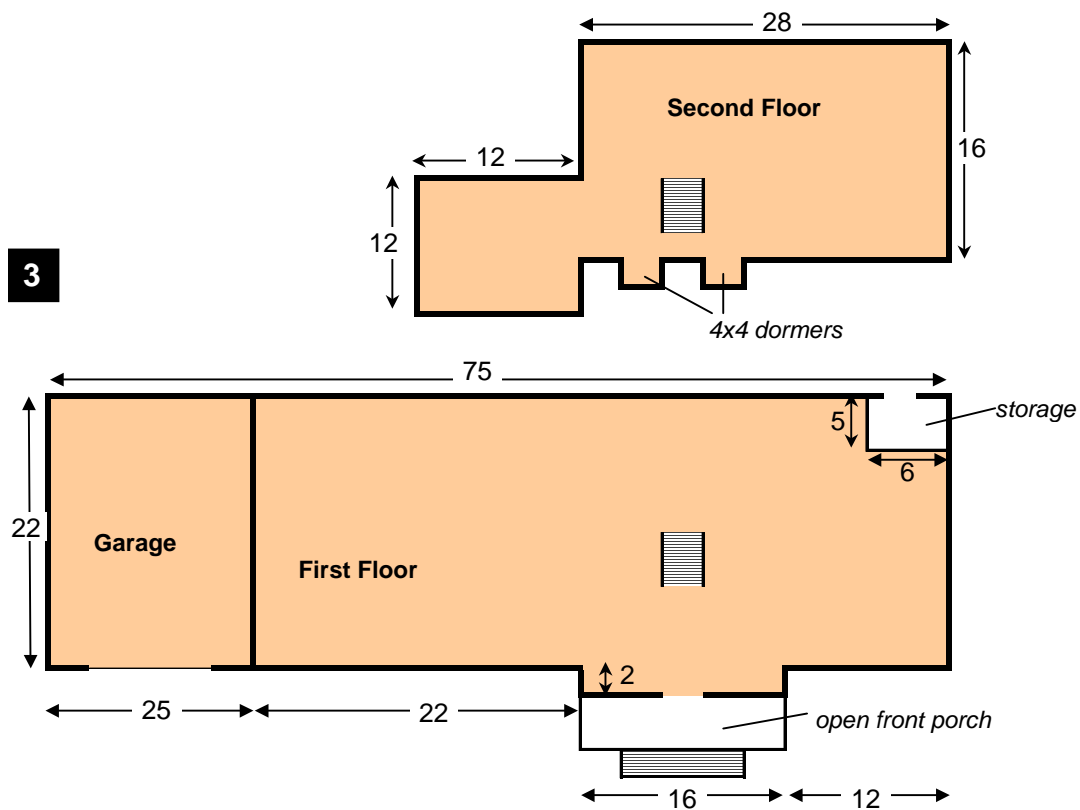
5. What is the interest on \$120,000 at six & one-half percent (6.5%) interest for two years, eight months and fifteen days?

6. Mr. Jones has decided to sell his house and move to a condominium. He finds a buyer who offers to pay \$39,750 as a down payment on the agreed purchase price of \$189,250. The buyer is to get a mortgage for the balance amortized at 6.5% interest for twenty-five years, in equal monthly payments, including principal and interest.
 - a. What is the loan to value ratio?
 - b. What is the original balance on the mortgage?
 - c. What is the monthly payment necessary to amortize the loan?
 - d. How much of the first payment would be interest?
7. The original mortgage loan was \$187,000 for twenty years at seven (7%) percent interest.
 - a. What are the monthly payments?
 - b. What is the principal balance on the loan at the start of the 12th year?
 - c. How much total interest would be paid when the loan pays off in 20 years?
8. As a real estate agent, you have a client (Mr. Jones) that you are helping to find a house. Through interview, you determine that Mr. Jones can afford a monthly payment up to \$1,225.00 for PITI. He has approximately \$12,500 cash available for a down payment, in addition to anticipated closing costs. You estimate that in your community the combined expense for taxes and insurance approximate twenty percent of the total monthly PITI payments. Present market conditions in your community indicate an interest rate of six & one-half percent (6.5%) on conventional loans, on a twenty-five year term. (Note PITI = principal, interest, taxes, & insurance). Using these factors determine the maximum loan Mr. Jones can afford on this basis, and the maximum price he could afford to pay for a home on these terms.

EXERCISE SET
CALCULATING SQUARE FOOTAGE



3



EXERCISE SET
LISTING INFORMATION

1. Your customer wants to know the area of the lot on which the house is built. You go to the plat and discover the lot is a trapezoid lot that has 154.26 feet of street frontage. The back of the lot measures the same. The plat also shows the left side to be 298 feet deep, while the right side is 72 feet less in depth. What is the area of the lot (square footage)?
2. A land developer wants to divide a 15-acre tract of land into lots, each of which will measure 50 feet width and 120 feet deep. If the developer allows 50,000 square feet for streets, how many lots can be developed in the subdivision?
3. Two parcels of land have the same width. Lot A is 400 feet deep and Lot B is 1,000 feet deep. If lot A contains 6 acres, how many acres are in Lot B?
4. How many acres are in a triangular lot with an 800-foot base that measures 396 feet from base to the peak?
5. How deep is a rectangular lot with a frontage of 120 feet, if the area of the lot is 2,400 square yards?
6. You have listed a triangular tract at the intersection of a state highway and an interstate highway. The parcel has 1,850 feet of frontage on the interstate and a perpendicular boundary of 3,061 feet on frontage on the state highway. The owner wants \$8,500 per acre, which includes your sales commission. How many acres (to the nearest whole acre) are in the tract? What is the sales price of the tract?
7. A residential lot is located in a subdivision with a setback restriction of 25 feet from the street. If the lot has a frontage of 110 feet on the street and a depth of 125 feet, how many square feet does the setback requirement render useless for construction?

EXERCISE SET
MATH—CALCULATING SALES PRICE AND LISTING PRICE

1. Mrs. Seller received a net of \$265,000 for her house after the broker deducted a 6% commission. What was the gross sales price of this house?

2. While soliciting a listing, the owners tell you that they want net proceeds of \$125,000 from the sale of their home. A \$140,000 first mortgage will have to be paid off at closing. If they are willing to pay a 6% commission, what must the property sell for so they net their \$125,000?

3. The Seller family wishes to sell their house at a 14% profit on cost of their purchase price. They purchased the house for \$215,000. What would the sales price have to be in order to give the sellers this profit and also pay the selling broker a 6% commission on the sales price?

4. What was the net amount received by the seller from a sale in which the broker received a 7% commission of \$22,750? The following closing costs will also have to be paid: title insurance fee is \$1,975, other closing costs totaling \$2,825 and a first mortgage of \$175,000.

5. On the sale of a house, Sally broker receives 7% of the first \$125,000 and 3% of any amount over the \$125,000. What was the selling price of the house, if her total commission on the sale was \$15,350?

EXERCISE SET
SELLER'S ESTIMATED CLOSING STATEMENT

On February 15, 20XX, Jack and Andrea Linfield, of 4520 Rim View Drive, listed their home with your firm, Fast Seller Real Estate, for \$148,000. In addition, they listed a vacant lot next door at a price of \$29,000. They agreed to pay a 7% commission on the actual price of either property. The present deed of trust on the house had a balance of \$58,771.34 after the February 1, 20XX, payment was credited. Monthly deed of trust payments of \$985.25 (PITI) are due the first day of each month with interest at 8% per annum on the principal balance to and including the day of payment. The payment includes taxes of \$150 and insurance of \$15. The reserve account for taxes contains \$955 and the reserve for insurance contains \$110.

The real estate taxes for the occupied property are estimated at \$1,950 for calendar year 20XX. The taxes on the vacant lot were estimated at \$350. The second half of the taxes for last year have not been paid and are due to be paid on June 20, 20XX. The Linfields have a fire insurance policy which expires on November 20, 20XX. The premium for this 3-year policy was \$564 and was paid in full. The seller is willing to allow this insurance policy to be transferred to the buyer.

There are 200 gallons of fuel oil remaining in the fuel tank. The seller wants their cost of \$1.10 per gallon. The title insurance policy will be paid by the seller.

The Linfields are willing to carry a second deed of trust for no more than \$15,000 payable at \$249.02 per month for 7 years at 10% interest. The Linfields would rather have all their money out of the sale by having the buyer obtain a new loan. The attorney fee to prepare the documents for this second deed of trust is \$250.

The Linfields are willing to carry a first deed of trust of no more than \$10,000 for the sale of the lot. They are willing to carry the \$10,000 at 8% interest for 5 years with payments of \$202.76 per month. The attorney fee to prepare the documents for this first deed of trust is \$250. If both properties are sold to the same buyer, the attorney fee for preparation of a blanket deed of trust will be \$400.

You estimate the property will sell and estimate the closing day will be May 16, 20XX. Closing cost for sale of the residence is \$400 to be split equally between the seller and buyer. Closing cost for sale of the lot is \$200 to be split equally between the seller and buyer. Closing cost for sale of the house and lot is \$600 to be split equally between the seller and buyer.

Use a 360-day year and 30-day months.

Prepare an estimated seller net out sheet for each of the possible alternatives to this transaction.

SELLER'S ESTIMATED CLOSING STATEMENT

SALE OF LOT ONLY

Closing date: 5/16/XX

Debit

Credit

SALE OF LOT ONLY WITH SELLER FINANCING

Closing date: 5/16/XX

Debit

Credit

SALE OF HOUSE ONLY

Closing date: 5/16/XX

Debit

Credit

SALE OF HOUSE ONLY WITH SELLER CARRYING DEED OF TRUST

Closing date: 5/16/XX

Debit

Credit

EXERCISE SET***MATH—NET SHEETS & PRORATIONS***

1. A loan of \$127,500 at 6.25% interest will be amortized over twenty-five- years with equal monthly payment (principal and interest only) of \$841.08. What portion of the payment is applied to the principal in the first month?

2. A large house was listed for \$132,000. An FHA offer was received for \$127,000. If the seller pays 6 discount points on a \$104,000 FHA Deed of Trust, plus a commission of 6%, What will the seller net?

3. A real estate listing has sold and will close on August 21. Taxes are to be prorated to the day of closing and the buyer is responsible for the day of closing. Using a 30-day month, how would taxes of 1,610 per year be shown on the closing statement? Indicate what the amount is for the buyer and seller, and whether it is a debit or a credit.

4. A sale is being closed on April 12, and the seller has already received rents of \$937 paid on the first of the month. How much of a credit will the buyer receive in prorating the rent at closing? The buyer receives the day of closing.

EXERCISE SET
ETHICAL SITUATIONS

Case Study

What if Martha Grey was a licensed real estate salesperson?

What if Martha's father was going to require her to repay his "gift" of \$5,000?

Assume that Martha's father had provided the \$5,000 in cash, and that Martha gave the cash to salesperson Greg Anderson at the time of writing the offer. Greg Anderson deposited the money in his own account, in order to pay for the desk fees (due the very next day) that his broker charges him each month. Greg plans to deposit a check or cash into the broker's trust account once he receives his commission from a previous transaction that is due to close in three to four days. This will be about the same time that a completed and accepted offer is established between Martha and the sellers. Is this acceptable? Explain your answer.